

# Report of the auditor-general to the Gauteng Provincial Legislature and the council on the City of Tshwane Metropolitan Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the City of Tshwane Metropolitan Municipality (CTMM) set out on pages x to x, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of CTMM as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act, 2017 (Act No. 3 of 2017) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Key audit matter

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
<b>Significant difficulties encountered in obtaining information requested for audit purposes</b>	
<p>The engagement letter signed by the accounting officer agreed to provide requested documents within five working days. In some cases, the municipality was unable to provide the requested documents within the agreed time. These significant difficulties had an adverse impact on the allocated time for audit execution and the evaluation of audit evidence</p> <p>Accordingly, the significant difficulties in providing requested information on time and aiding the audit team with access to the SAP system had an impact on the audit and is considered a key audit matter.</p>	<p>To monitor the submission of documents in response to the request for information, a tracking mechanism was set up between the municipality and senior members of the audit team. Where information was not provided within the agreed time frame, concerns were escalated to leadership by submitting weekly progress reports to the accounting officer and holding weekly audit steering committee meetings</p> <p>Some long-outstanding information was only made available in November for audit purposes. However, constraints over access to the SAP system were resolved</p> <p>I am satisfied that all material outstanding information has been provided and sufficient time was available to assess and report where applicable.</p>

## Material uncertainty relating to financial sustainability

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Financial sustainability

8. As disclosed in note 65 to the financial statements, the liquidity ratios were below the acceptable norm as result of the non-achievement of debtor's collection rate which will impact negatively on future cash flows.

## Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

10. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### Material uncertainties

11. With reference to note 54 to the financial statements, the municipality is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured therefore no provision for any liabilities that may result has been made in the financial statements.

## Material impairments

12. As disclosed in note 22 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors' amounts to R8,172 billion (2016-17: R6,133 billion), which represents 70.9% (2016-17: 60.7%) of total consumer debtors. The contribution to the provision for debt impairment, as disclosed on note 35 to the financial statements, was R1,712 million (2016-17: R1,272 million).

## Material losses

13. As disclosed in note 59 to the financial statements, material electricity losses of R1,524 billion (2016-17: R1,563 billion) was incurred, which represents 20,32% (2016-17: 20.58%) of total electricity purchased. Technical losses amounted to R525 million (2016-17: R531 million) and was due to the electricity that was lost when it was distributed from the source of generation through the transmission and distribution network to the final consumer. Non-technical losses amounted to R999 million (2016-17: R1,031 billion) and were due to administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption and faulty meters.

## Other matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP, the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the CTMM's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a

material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected pillars presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected pillars presented in the annual performance report of the municipality for the year ended 30 June 2018:

Pillars	Pages in the annual performance report
Pillar 1 – a city that facilitates economic growth and job creation	x – x
Pillar 3 – a city that delivers excellent services and protects the environment	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not raise any material findings on the usefulness and reliability of reported information for the following pillars:
- Pillar 1 – A city that facilitates economic growth and job creation

- Pillar 3 – A city that delivers excellent services and protects the environment.

## **Other matters**

25. I draw attention to the matters below.

### **Achievement of planned targets**

26. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year.

### **Adjustment of material misstatements**

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Pillar 3 – A city that delivers excellent services and protects the environment. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

28. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
29. The material findings on compliance with specific matters in key legislations are as follows:

### **Annual financial statements**

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of the cash flow statement, receivables, commitments and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Revenue management**

31. An effective system of internal control for consumer debtors and revenue was not in place as required by section 64(2)(f) of the MFMA. A high number of consumer debtors were billed on estimates instead of actual meter readings, while the impairment principles applied for receivables were revised during the year.

### **Asset management**

32. An effective system of internal control for assets including an adequate asset register was not in place as there was insufficient accounting over new and completed assets, as required by section 63(2)(c) of the MFMA.

## Expenditure management

33. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
34. Reasonable steps were not taken to prevent irregular expenditure disclosed in note 49, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with regulation 19(a) of the Municipal Supply Chain Regulations.

## Human resource management

35. Appointments were made in posts which were not provided for in the approved staff establishment, as required by section 66(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
36. Financial interest was not disclosed by the senior managers within 60 days from date of appointment, as required by MSA regulation 36(1)(a) on appointment and conditions of employment of senior managers.
37. I was unable to obtain sufficient appropriate audit evidence that job descriptions were established for all posts in which appointments were made, as required by section 66(1)(b) of MSA.

## Procurement and contract management

38. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bidding bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the previous year.
39. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1), because some of the contracts were awarded to providers who during the last five years, failed to perform satisfactorily on a previous contract with the other organ of state.
40. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.

## Consequence management

41. Some of the fruitless and wasteful expenditure incurred by the municipality were not investigated timeously to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA

## Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the

financial statements, the auditor's report and those selected pillars presented in the annual performance report that have been specifically reported in the auditor's report.

43. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
44. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected pillars presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. I have nothing to report in this regard.

### Internal control deficiencies

46. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
47. The accounting officer did not adequately oversee the financial reporting, resulting in material adjustments to the financial statements, performance reports and non-compliance with the MFMA and SCM regulations.
48. The accounting officer and senior management developed a plan to address audit findings, but adherence to the plan on key items such as procurement, contract management and financial reporting were not monitored adequately, resulting in a number of repeat findings. The city failed to properly analyse the control weaknesses and implement appropriate follow-up actions that addressed the root causes of prior year audit findings.
49. Effective financial and internal control disciplines were not implemented to ensure fairly presented financial statements. The preparation and review processes were ineffective, which resulted in material adjustments to the annual financial statements.

### Other reports

50. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

## Investigations

51. Thirty-one investigations into alleged irregularities, financial misconduct and fraud were completed during the year under review. Various measures were recommended, including taking action against the identified officials, and these were in the process of being implemented. The recommendations were at various stages of implementation.
52. Three hundred and nineteen cases of alleged irregularities relating to financial misconduct, fraudulent acts, theft and non-compliance were investigated during the year. The investigations, including award made to Glad Africa were still in progress at the reporting date with due date for finalisation not confirmed.

*Auditor-General*

Johannesburg

3 December 2018



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected pillars and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the constitutes the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City of Tshwane Metropolitan Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

5. From the matters communicated to those charged with governance, I determine those matters that were most significance in the audit of the financial statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

